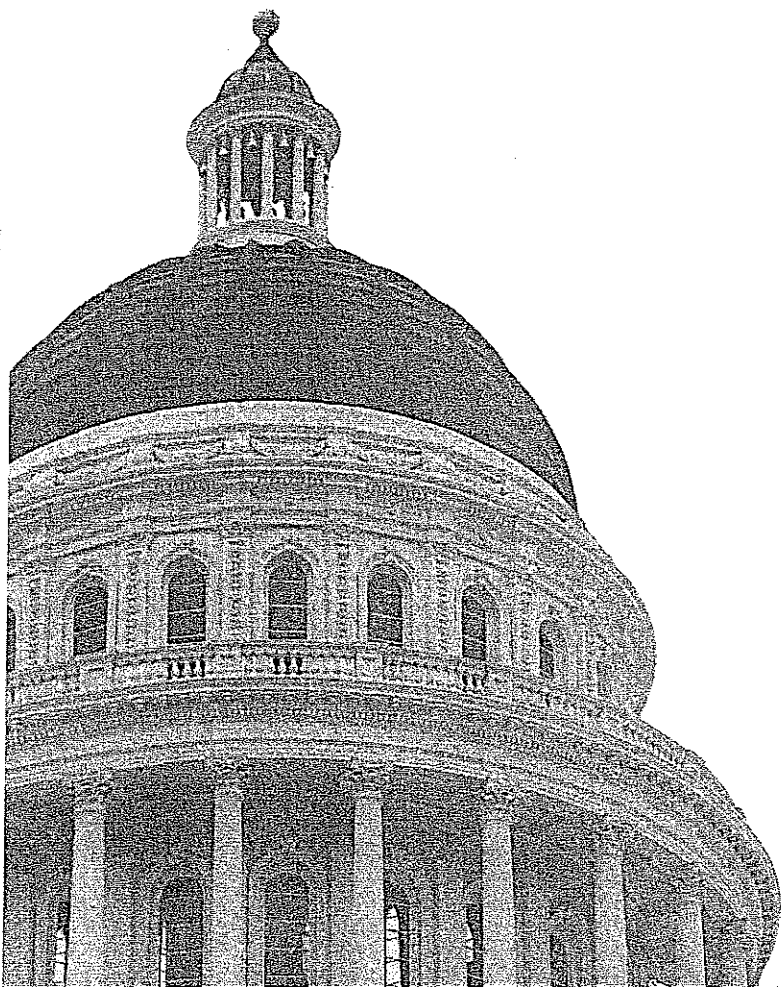


CALIFORNIA STATE AUDITOR

Bureau of State Audits

High Risk

The California State Auditor's Updated Assessment of High-Risk
Issues the State and Select State Agencies Face



August 2011 Report 2011-601

Chapter 6

PROVIDING EFFECTIVE OVERSIGHT OF THE STATE'S INFORMATION TECHNOLOGY PROJECTS

The State's oversight of information technology (IT) projects continues to be an area of high risk. The Bureau of State Audits identified IT as a high-risk issue in 2007 because, despite efforts to establish statewide governance, the State had lacked strong IT oversight for many years and its prior governance models had limited authority and success. Our current review found that the California Technology Agency (Technology Agency)¹⁸ has grown in size and responsibilities and has more authority as a control agency than its predecessors. However, with 70 state IT projects under development totaling more than \$7.8 billion and a relatively new project management system, IT project oversight remains on our list of high-risk issues.

IT Governance

The Technology Agency's governance authority over the State's IT systems—including its leadership in the areas of planning and policy development—has improved.

In our inaugural high risk report, we faulted the Technology Agency's predecessor for not having a clearly defined approval role or responsibilities. Many key IT functions, such as enterprise IT management and information security, data center and shared services, and IT procurement policy, are now the responsibility of the Technology Agency. The governor's 2009 reorganization plan integrated the Department of Technology Services, the Telecommunications Division within the Department of General Services (General Services), and the information security functions previously provided by the Office of Information Security and Privacy Protection into an expanded Technology Agency. Further, the reorganization plan transferred duties related to the State's procurement of IT from the Department of Finance (Finance), General Services, and the Department of Information Technology to the Technology Agency. Assembly Bill 2408, signed into law in February 2010, subsequently codified the governor's plan. The agency is now responsible for IT procurement policy and is required to review requests for proposals for state IT projects, giving it more authority than its predecessors.

¹⁸ Governor's Reorganization No. 1 of 2009–10 Regular Session took effect on May 10, 2009. This plan was later codified by Assembly Bill 2408 of the 2009–10 Regular Session, which renamed the Office of the State Chief Information Officer (OCIO) as the California Technology Agency. Within this report we refer to the former OCIO as the Technology Agency.

The Technology Agency rejects projects if they lack a business case, financial resources, or appropriate technology, and through this process the Technology Agency has rejected 132 IT projects as of March 2011.

The Technology Agency continues to operate under a governance model in which the State, agencies, and departments maintain authority and accountability for IT at their respective government levels. At the statewide level the Technology Agency provides IT infrastructure and shared services, agencies provide program and policy direction and resource consolidation, and departments provide daily operations and support. Accordingly, the Technology Agency issues policy letters to state agencies and departments regarding various IT policies, standards, and procedures. According to the Technology Agency's chief technology officer, the reorganization facilitated IT transparency and communication among the various state offices charged with IT responsibilities.

In addition, the Technology Agency uses a statewide IT capital plan as a planning mechanism to ensure that the State's IT investments are aligned with business priorities in a manner consistent with the State's technology directives. According to the chief technology officer, the Technology Agency rejects projects if they lack a business case, financial resources, or appropriate technology, and through this process the Technology Agency has rejected 132 IT projects as of March 2011. Further, the Technology Agency and Finance entered into a memorandum of understanding in August 2009 that requires the Technology Agency to review budget change proposals related to IT systems and IT infrastructure. According to the chief technology officer, this review process allows the Technology Agency to monitor whether projects are on schedule and within budget, because departments need to submit a budget change proposal if their projects exceed approved contract values by 5 percent or more.

Finally, a concern we raised during our first report identifying statewide IT as a high-risk issue was that the Technology Agency's predecessor attempted to tackle too many challenges at once rather than establishing a set of priorities and taking on only the most important issues. Our current review found that the Technology Agency has a strategic plan in place that outlines the mission, vision, and philosophy of the State's IT program; describes the statewide IT goals, strategies, and high-level actions; and includes recent IT accomplishments and planned initiatives. The Technology Agency appears to track the dates and completion status for goals and action items outlined in its strategic plan. The Technology Agency included in its 2010 strategic plan performance report metrics that included baseline and fiscal year 2013-14 targets for key IT metrics to measure its progress against the strategic plan. The performance metrics were not included in its 2011 strategic plan because, according to the chief technology officer, the Technology Agency chose to include this information as part of another report it provides to the Legislature. The Technology

Agency provided documents showing that it continues to measure its progress toward the long-term targets it outlined in its 2010 strategic plan.

IT Project Oversight

While the Technology Agency has strengthened its role in IT project oversight, due to the high cost of state IT projects and relatively new project management methodologies, its oversight of IT projects remains an area of high risk.

The Technology Agency continues to use the California Project Management Methodology (project methodology) as a guideline to manage state IT projects. State departments classify their IT projects as high complexity, medium complexity, or low complexity based on criteria established in the project methodology, some of which are described in the text box. As of May 18, 2011, the State had 70 IT projects under construction, with a total cost of more than \$7.8 billion.¹⁹ Of these projects, 35 are designated high complexity with an estimated total cost of \$5.6 billion, 23 are medium complexity with an estimated total cost of \$151 million, and the remaining 11 are low complexity with an estimated total cost of \$38 million.

Examples of Criteria the California Technology Agency Uses to Determine Project Criticality

- The level of experience of the project manager and the project team.
- The level of financial risk to the state.
- The level of security within the information technology (IT) system.
- The volume of transactions anticipated for the IT system.

Sources: California Project Management Methodology, State Administrative Manual, and Statewide Information Management Manual.

The Technology Agency assigns part-time or full-time staff on some high-risk projects. According to the deputy director of the Program Management Office, for high complexity and critical projects the Technology Agency receives project information from multiple sources, such as project status reports from independent verification and validation and independent project oversight providers, as well as Technology Agency staff working on the projects. However, less oversight is performed on low- and medium-complexity projects. This appears reasonable for projects classified as low complexity because, as noted in the previous paragraph, these projects make up a small portion of state IT projects under construction and are, by definition, of low criticality.

According to the deputy director, it is the responsibility of the department project managers to report accurate and complete information to the Technology Agency regarding the status of

¹⁹ The Technology Agency does not have the same oversight authority over projects undertaken by the Administrative Office of the Courts (AOC) and the federal court-appointed receiver for the California Department of Corrections and Rehabilitation (Corrections) that it has over other state entities. Nevertheless, Corrections has chosen to report project information on an exempt IT project to the Technology Agency, and the AOC provides periodic reports to the Technology Agency and an annual report to the Legislature that includes updates for one of its IT projects.

these projects. However, the Technology Agency appears to have appropriate measures in place to ensure that medium-complexity projects are completed on time and within budget. Specifically, the deputy director stated that the Technology Agency receives independent reports from the oversight providers of these projects and also receives information during meetings with the project staff and by reviewing IT project documents. Additionally, state agencies must submit to the Technology Agency a special project report when a project deviates by 10 percent or more from the most recently approved project cost, benefits, or schedule. Nevertheless, because its project management methodologies are relatively new and because state IT projects take time to complete, it is too early to assess the sufficiency of the Technology Agency's project oversight.

Escalating Costs of Major IT Projects

Despite the progress made in the IT governance and oversight areas, the State continues to experience issues such as increasing costs and slipping timelines. The State's IT projects can be significant in scope and cost, and mismanagement of these projects can lead to substantial costs to taxpayers. Therefore, this area continues to be included on our list of issues presenting a high risk to the State.

We recently reviewed, are monitoring, or have received information on four large projects with a combined total cost of \$4.4 billion, that could have a major impact on state operations, and identified concerns related to project funding, increasing cost estimates, slipping deployment schedules, and inadequate project management. For instance, although the Financial Information System for California (FI\$Cal) recently received an exemption to the hiring freeze for certain positions, the project sponsor—a key leadership position responsible for, among other things, ensuring sustained buy-in at all levels and approving significant changes to the master project plan—was recently replaced when he was appointed as executive director of General Services in May 2011, and this change in leadership may pose a challenge for the project. FI\$Cal reported costs of \$44 million through May 2011. However, Finance has not updated the total projected cost of FI\$Cal since 2007, when it projected a total cost of \$1.6 billion. It anticipates updating the project's total projected cost and timeline in January 2012. Further, Finance presented funding options for FI\$Cal, which included funding the project costs in the budget as the costs are incurred, financing some contract costs through the vendor, or financing a portion of the project through bonds.

Through May 2011 the State has spent \$44 million on its financial information system. However Finance has not updated the total projected cost of the system since 2007.

Similarly, the 21st Century Project, designed to combine the State's various payroll, employment history, leave, position, and attendance data into one statewide system, has reported significant challenges with converting legacy data to the new system. It indicated that this has caused an unplanned delay affecting multiple activities required for successful implementation. As of June 2011 the project manager was unsure how this challenge would affect the total cost of this project, and she estimated that the deployment of this project will be delayed by as much as nine months. As of April 2011 the approved cost for the project was \$307.8 million and \$153.8 million had been spent. The Technology Agency has assigned oversight staff to both the FI\$Cal and 21st Century projects.

Corrections' Strategic Offender Management System (SOMS) is a large IT project that is not under the oversight of the Technology Agency. Corrections maintains responsibility for the implementation of SOMS but is working with the federal court-appointed health care receiver (receiver) who became involved in SOMS, in part, to expedite the procurement process for Corrections. The receiver filed, on behalf of Corrections, a request to the federal court to waive state contracting statutes, regulations, and procedures for SOMS, which was approved by the court. The waiver exempted SOMS from the State's IT oversight. However, Corrections has chosen to report project information to the Technology Agency. Corrections reported significant variances in the project's schedule, milestones, deliverables, and costs in its March 2011 status report to the Technology Agency. According to the SOMS project director, these variances existed because Corrections had not updated the project scope, cost, and timeline since 2006. Information provided by the project director indicates that SOMS is scheduled for completion in October 2014 and will cost \$500 million—two years later and \$84 million more than we reported in our June 2009 high risk review. Corrections attributes these increases to the lack of timely state budgets for the past two fiscal years, mandatory furloughs, and changes in the programs that the SOMS project supports. Corrections noted it is exploring several budget alternatives, as well as evaluating the impact of Assembly Bill 109, discussed in Chapter 2, before it updates its project scope, cost, and timeline. According to its status report to the Technology Agency, the project has incurred costs of \$142 million through May 31, 2011. Although the Technology Agency has no authority over SOMS, Corrections nonetheless provides status updates to the Technology Agency, and the Technology Agency has a staff person assigned to monitor and report on the SOMS project.

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The Technology Agency also does not have the same oversight authority over the case management system being developed by the AOC that it does over other State IT projects. The AOC is responsible for managing the development of the most recent

We also found that the AOC's cost estimate for the system grew from \$260 million in 2004 to \$1.9 billion in 2010. Further, over the same period, complete deployment to the superior courts was postponed by seven years.

version of a statewide court case management project called the Court Case Management System (CCMS). In February 2011 we reported that the AOC had experienced challenges with the project. Specifically, we reported that it had not adequately planned the statewide case management project since 2003, that it had failed to contract for adequate independent oversight, and that future funding for this project was uncertain. We also found that the AOC's cost estimate for the system grew from \$260 million in 2004 to \$1.9 billion in 2010. Further, over the same period, complete deployment to the superior courts was postponed by seven years. In our report we recommended, in part, that the AOC retain an independent consultant to review the system before deploying to three early-adopter courts.

According to the director of the AOC's Information Services Division, as of June 13, 2011, the AOC has awarded the contracts for independent code quality assessment and a rapid quality assessment of the CCMS software development project and resulting products and anticipates that the reviews will be completed by August 30, 2011. The AOC also hired a contractor to conduct a cost-benefit analysis of CCMS. However, our review of this analysis found that the data the AOC provided to the contractor excluded and understated certain costs, assumed certain benefits of CCMS that were questionable, and used a deployment model that included some unrealistic assumptions. Furthermore, the contractor acknowledged five critical factors that would affect CCMS's return on investment: delays in court deployment, the speed at which courts begin to realize benefits, budget overruns by the project, increases in court deployment costs, and the elimination of manual data entry of case files with justice partners. As of May 2011 the AOC estimated that it will complete CCMS by June 2017 and that the project will cost nearly \$2 billion. According to its May 2011 report to the Legislature, as of June 2010 CCMS had already cost the State \$454 million. The AOC anticipated that it will spend an additional \$93 million on the project in fiscal year 2010-11. However, on July 22, 2011, in reaction to State budget cuts, the Judicial Council reduced CCMS funding for fiscal year 2011-12 by \$56 million, which will result in a one-year delay in the deployment activities for the project to June 2018.